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**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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December 13, 2005

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FROM: J. Tyler McCauley *Maria Que*
Auditor-Controller *for*

SUBJECT: **AMANECER COMMUNITY COUNSELING SERVICES CONTRACT
REVIEW**

Attached are the contract compliance and fiscal reviews of Amanecer Community Counseling Services (Amanecer or Agency). My office conducted the contract compliance review (Attachment I) and Conrad and Associates, LLP (Conrad), under contract with my office, conducted the fiscal review (Attachment II). The Department of Mental Health (DMH) requested the reviews.

Background

DMH contracts with Amanecer, a private, non-profit, community-based organization, which provides services to children and their parent(s) in Service Planning Areas Four, Five, and Six. Services include assessing the program participants' mental health needs and developing and implementing a treatment plan. For Fiscal Year (FY) 2004-05, DMH contracted with Amanecer to provide approximately \$3.9 million in Medi-Cal funded services. Amanecer's headquarters is located in the First District.

Scope of Reviews

The review conducted by my office was to determine whether Amanecer provided the services outlined in their contract with the County. We compared the Agency's actual service levels with their planned service levels. We also selected a sample of Amanecer's billing invoices, participant charts, expenditure documentation, and personnel and payroll records. We also interviewed staff from Amanecer and interviewed a sample of participants or their parents or guardians.

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The review conducted by Conrad was to examine the Agency's FY 2004-05 fiscal operations by reviewing expenditures and revenue activities, billing practices and compliance with policies and procedures.

Results of Reviews

Amanecer used qualified staff to perform program services, and the participants and parents interviewed stated the program services met their expectations. The Agency's staffing levels exceeded the proposed levels identified in the County contract. In addition, the methodology used by the Agency to allocate General and Administrative costs were appropriate.

However, the Agency has a significant cash flow problem and if the issue is not resolved soon, Amanecer could be a going concern by the end of the current fiscal year. The Agency also needs to revise their billing practices for Crisis Residential Treatment services and improve their internal controls and level of documentation to support program expenditures and services billed to the County. Specifically:

Auditor-Controller Report

- For 14 (93%) of the 15 participants sampled that received Crisis Residential Treatment services, Amanecer billed DMH for services that the participants received on their discharge date which is not allowed by the County contract. The disallowed billings totaled \$1,895.
- For 3,053 (26%) of the 11,807 service minutes sampled, Amanecer did not sufficiently document the billings. For example, the Agency billed 2,348 minutes for Mental Health Services but the clients' progress notes did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals, as required by the County contract.
- For 25 (36%) of the 69 Client Plans reviewed, the Agency did not complete the Client Plans in accordance with the County contract.

Conrad and Associates Report

- If Amanecer's cash flow problem is not resolved, Amanecer could be a going concern by the end of the current fiscal year. Over the last three years, Amanecer's expenditures have exceeded the amounts reimbursed by DMH. As of September 30, 2005, Amanecer's money market reserve fund has been reduced to zero. Amanecer also has used \$150,000 of its \$350,000 line of credit to help cover its operating expenditures.

- The Agency did not sufficiently document salary transactions and their use of consultants. Timesheets were not always signed by either the employee or their direct supervisor and the hours that employees were paid did not always agree with the hours reported on their signed timesheets. The Agency did not maintain copies of the signed contracts with their consultants, and consultants did not always prepare timesheets to report their hours worked.
- The Agency did not always sufficiently document the client needs expenditures or ensure the expenditures were appropriate. The documentation used to support the expenditures did not contain a signature from the client and/or families to indicate that they received the goods and/or services. In addition, specific expenditures did not appear to be appropriate program expenditures.

Course of Action

DMH and Amanecer need to resolve the going concern issue. Once this issue is resolved, the Agency needs to provide a corrective action plan with timeframes for completion to DMH that addresses the recommendations noted in the attached two reports. My office and DMH will closely monitor the contractor to ensure the Agency implements the corrective action.

Review of Reports

On November 3, 2005, we discussed the results of both reviews with Amanecer. In their attached response (Attachment III), Amanecer agreed with the findings and recommendations contained in the two reports.

We thank Amanecer management for their cooperation and assistance during both reviews. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachments

c: David E. Janssen, Chief Administrative Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Tim Ryder, Executive Director, Amanecer Community Counseling Services
Public Information Office
Audit Committee

AMANE CER COMMUNITY COUNSELING SERVICES



Contract Compliance Review

December 2005

Prepared by:

Countywide Contract Monitoring Division
Department of Auditor Controller

**COUNTYWIDE CONTRACT MONITORING REVIEW
EARLY AND PERIODIC SCREENING, DIAGNOSTIC, AND TREATMENT PROGRAM
FISCAL YEAR 2004-2005
AMANECER COMMUNITY COUNSELING SERVICES**

BACKGROUND

In November 2004, the Department of Mental Health (DMH) received a number of written complaints from Amanecer Community Counseling Services (Amanecer or Agency) employees and program participants that alleged that personnel and management issues at Amanecer have affected the quality of services. In response to these complaints, DMH conducted a review of Amanecer's service delivery and personnel practices. DMH reported that the complaints have merit and requested the Auditor-Controller (A-C) to conduct a review of Amanecer's fiscal records and compliance with the County contract.

In October 2005, the Auditor-Controller engaged Conrad and Associates, LLP (Conrad) to conduct a review of Amanecer's 2004-05 fiscal records. In addition, the A-C reviewed the Agency's compliance with the County contract requirements. Conrad issued a separate report on the outcome of their review (Attachment II). The following is the A-C's report on the Agency's compliance with the County contract.

PURPOSE/METHODOLOGY

The purpose of the review was to determine whether Amanecer provided the services outlined in their contract with the County. Our period of review included April 2005 to June 2005. We compared the Agency's actual service levels with their planned service levels. We also selected a sample of Amanecer's billing invoices, participant charts, expenditure documentation, and personnel and payroll records. In addition, we interviewed staff from Amanecer and participants or their parents or guardians.

For our review period, DMH paid Amanecer \$135.37 for each day that a client participated in its Crisis Residential Treatment program. DMH also paid Amanecer between \$1.29 and \$2.47 per minute of staff time (\$77.40 to \$148.20 per hour). For Fiscal Year (FY) 2004-05, DMH contracted with Amanecer to provide approximately \$3.9 million in Medi-Cal funded services. DMH contracted with Amanecer to provide the same amount in FY 2005-06

BILLED SERVICES

Objective

Determine whether Amanecer Community Counseling Services (Amanecer or Agency) provided the services billed in accordance with their contract with DMH.

Verification

We selected a sample of 11,807 minutes from 358,070 service minutes that Amanecer billed DMH for April, May and June 2005 and reviewed the documentation to support the billings. The sample represents services provided to 69 program participants. We also selected 15 program participants that received Crisis Residential Treatment services and reviewed the documentation to support the 398 service days of treatment provided to the participants that Amanecer billed DMH. For each of the selected billings, we reviewed the participants' progress notes, Assessments, and Client Plans maintained in their case files.

In addition, we selected a second sample of 61 billings totaling 2,265 minutes to determine whether the Agency billed more than once for the same service.

Results

For 14 (93%) of the 15 participants sampled that received Crisis Residential Treatment services, Amanecer billed DMH for services that the participants received on their discharge date which is not allowed by the County contract. The Agency's management stated that they were not aware that the County contract prohibited them from billing for services provided to the participants on their discharge. The disallowed billings totaled \$1,895.

Amanecer did not maintain documentation to support 965 (8%) of the 11,807 service minutes sampled. The Agency subsequently provided documentation to support 730 minutes but could not explain why the documentation was not in the participants' case files. The Agency did not provide documentation to support the remaining 235 minutes. In addition, for 208 (9%) of the 2,265 minutes sampled, the Agency billed DMH for services that were previously billed. The undocumented billings (\$430) and the duplicated billings (\$296) resulted in an over billing of \$726.

Amanecer insufficiently documented 3,053 (26%) of the 11,807 service minutes, as required by the County contract. Specifically,

- For 2,348 minutes sampled, the Agency billed for Mental Health Services but the progress notes did not describe what the clients or service staff attempted and/or accomplished towards the clients' goal(s).
- For 560 minutes sampled, the Agency billed for more than one staff present during an intervention but the progress notes did not describe the specific contribution of each staff person.
- For 120 minutes sampled, the Agency did not document the activity/procedure code on the progress note.

In instances in which Amanecer extends a program participant's stay in a Crisis Residential Treatment facility beyond 30 days, the Agency is required to maintain documentation to support the participant's extended stay. For one (33%) of the three

Crisis Residential Treatment cases reviewed, in which the participants received services beyond the 30-day timeframe, the Agency did not maintain the required documentation.

Assessments and Client Plans

Generally, the Agency completed the Assessments in accordance with the County contract. An Assessment is a diagnostic tool used to establish the client's mental health treatment needs.

However, 25 (36%) of the 69 participants did not have Client Plans or had Client plans that were incomplete. The Client Plans establish goals and the treatment to address the issues identified in the Assessment. Specifically, we noted the following:

- Two Client Plans were not in the chart.
- Two Client Plans did not contain mental health goals.
- Fourteen Client Plans did not contain case management goals.
- Two Client Plans were not signed by the therapist.
- Seven Client Plans did not contain observable and/or quantifiable goals.
- Two Client Plans were not signed by the participants or legally responsible adults.

The total number of Client Plans cited above exceeded the number of Client Plans reviewed because some of the Client Plans contained more than one deficiency.

Amanecer needs to ensure that staff properly complete a Client Plan for each participant and maintain them in the participant's case file. In addition, Amanecer should ensure that participants and legally responsible adults sign the participants' Client Plan or document the reasons why the Plan was not signed.

Recommendations

Amanecer management:

- 1. Repay DMH \$2,621 (\$1,895+\$726) for the amount over billed.**
- 2. Maintain sufficient documentation in the program participant case files to support the billings to DMH and to comply with the contract requirements.**
- 3. Discontinue the practice of billing for Crisis Residential Treatment services provided on the discharge date.**
- 4. Review its billings for Crisis Residential Treatment services for Fiscal Years 2004-05 and 2005-06 and repay DMH for amounts over billed.**

5. Ensure that staff complete a Client Plan for each participant in accordance with the County contract and file the Client Plan in the participant's case file.
6. Ensure that the participants or legally responsible adults sign the participants' Client Plans or document the reasons why the Plans were not signed.

CLIENT VERIFICATION

Objectives

Determine whether the program participants actually received the services that Amanecer billed DMH.

Verification

We interviewed seven program participants and three parents to confirm that the participants are clients of Amanecer and that they received the services that the Agency billed DMH.

Results

The participants and parents confirmed that the participants were clients of Amanecer and indicated that they are satisfied with the services the Agency provided.

DMH expressed concern that the responses we received from the 10 interviewees did not accurately capture Amanecer's program participant satisfaction. In March 2005, DMH interviewed seven parents whose children received services from Amanecer. Four of the parents interviewed complained about the quality of care their children received from Amanecer.

DMH recommended developing a customer satisfaction survey that DMH contractors would make available to the program participants or parents and guardians of program participants. The individuals completing the surveys would send the surveys directly to DMH.

Recommendation

7. DMH work with Amanecer and the other contractors to develop a customer satisfaction survey for program participants or parents and guardians of program participants to complete and send directly to DMH.

STAFFING LEVELS

Objective

Determine whether the staffing ratio requirements complied with the requirements indicated in the County contract. Contractors are required to have at least two professional mental health staff on duty at all times and maintain a minimum 1:1.6 ratio of full time professional mental health staff to the total number of clients in its Crisis Residential Treatment Service.

Verification

We selected ten days in the months of May and June 2005 and reviewed the staff schedule and timecards to determine the professional mental health staffing level throughout the day and the full time equivalent number of staff who worked on the selected day. We also reviewed the listing of Crisis Residential clients present that same day and calculated the staff to client ratio.

Results

The Agency had at least two staff present at all times and maintained at least a 1:1.6 staff to client ratio.

For a sample of employees, we attempted to reconcile the hours billed in April and May 2005 to the hours they reported on their timecards. However, Amanecer management indicated that beginning August 2005, it implemented a policy requiring staff to report actual hours worked on their timecards. Prior to that date, full-time/salaried staff did not record actual hours worked on their timecards. Management should monitor staff's compliance with the new policy.

Recommendation

8. Amanecer management monitor staff's compliance with the new policy requiring all staff to record actual hours worked on their timecard.

STAFFING QUALIFICATIONS

Objective

Determine whether Amanecer's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the qualifications for 35 of the Agency's 91 program staff.

Results

Each staff person possessed the required qualifications to deliver the services billed.

Recommendation

There are no recommendations for this section.

AMANECER COMMUNITY COUNSELING SERVICES

1200 Wilshire Blvd., Suite 208
Los Angeles, CA 90017

Los Angeles County Department of Mental Health

Contract No. DMH-01773

2004-2005 Fiscal Review

CONRAD AND ASSOCIATES, L.L.P.

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In accordance with Master Agreement 73518 – Work Order 7-20, we have conducted a fiscal review of Amanecer Community Counseling Services (Amanecer).

The review was conducted to examine Amanecer's fiscal year ended 2005 fiscal operations by reviewing expenditures and revenues activities, billing practices and compliance with county contractual policies and procedures. The fiscal review was conducted in accordance with procedures agreed upon with your office. Specifically, we reviewed controls over financial operations and reviewed financial records for fiscal year 2004-2005. We also selected a sample of transactions, expenditures and revenues, and reviewed those transactions for accuracy and appropriateness. In addition, we reviewed staffing levels to ensure employees proposed in the contract were properly filled with qualified personnel. The analysis and results of our fiscal review have been included in the attached report.

This report is intended solely for the information and use of the County of Los Angeles Board of Supervisors, County of Los Angeles Auditor-Controller, County of Los Angeles Department of Mental Health, and Amanecer's Management and is not intended to be and should not be used by anyone other than those specified parties.

Conrad and Associates, L.L.P.

Conrad And Associates, L.L.P.
Irvine, CA
November 3, 2005

AMANECER COMMUNITY COUNSELING SERVICES
2004-2005 Fiscal Review

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COUNTY OF LOS ANGELES, DEPARTMENT OF MENTAL HEALTH

AMANECER COMMUNITY COUNSELING SERVICES

2004-2005 Fiscal Review

BACKGROUND

The Pico Union and Downtown communities within the City of Los Angeles are considered by the Department of Mental Health (DMH) to be areas of high mental health needs since many of the residents are monolingual, non-English speaking persons, living in poverty, medically indigent, and are recent immigrants. DMH contracts with Amanecer Community Counseling Services (Amanecer) to provide counseling services to clients on an outpatient basis. In addition, Amanecer operates Compass House, which is a 12-bed crisis residential facility.

DMH receives funding from multiple funding agencies that are usually directed to specific services. During fiscal year 2004-2005, the County paid Amanecer approximately \$5 million to deliver these counseling services.

In November 2004, DMH received a number of written complaints from Amanecer employees and program participants that alleged that personnel and management issues at Amanecer have impacted the quality of services. In response to these complaints, DMH conducted a review of Amanecer's service delivery and personnel practices. In July 2005, DMH reported that the written complaints and related concerns expressed to DMH have merit. DMH then requested the Auditor-Controller to conduct a review of Amanecer's fiscal records. In October 2005, the Auditor-Controller engaged Conrad And Associates, LLP to conduct a review of Amanecer's 2004-2005 fiscal records.

The primary objectives of this review are to:

- Ensure that the financial operations of Amanecer are recorded and reported in accordance with generally accepted accounting principles, State, and County reimbursement requirements.
- Ensure that Amanecer is aware of and attests to comply with those State and County fiscal requirements embodied in laws, regulations, rules, policies, and guidelines.
- Ensure that Amanecer's current business and financial practices have a high degree of accuracy, and are in compliance with the financial provisions of County contracts. Also, make recommendations to correct any noted deficiencies, thereby lessening the risk to the County for any future audit liabilities.
- Ensure that Amanecer's attests or certifies that it complies with all applicable funding source requirements, including the requirements of DMH's Cost Reporting/Data Collection Manual (CR/DC).
- Ensure that funds received by Amanecer from the County are being utilized consistently with contract provisions and the receipt/utilization of these funds is being properly recorded in Amanecer's financial records.
- Compare Amanecer's current organizational structure to the organizational chart included in Amanecer's negotiation package. If the current organizational structure significantly varies from the planned structure, analyze the effectiveness of the new structure to provide the level of services identified in Amanecer's contract.
- Compare Amanecer's current management and staffing levels to the management and staffing levels identified in Amanecer's negotiation package. If the current management and staffing levels significantly varies from the planned levels, analyze the impact of the change to provide the level of services identified in Amanecer's contract.

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AMANECER COMMUNITY COUNSELING SERVICES

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SCOPE AND METHODOLOGY

The period covered by this review was from July 1, 2004 through June 30, 2005. In order to accomplish the objectives of this review, we reviewed Amanecer's operations and performed test work on fiscal activities. Specifically, we performed the following:

- Interviewed Amanecer's administrative office personnel to document internal controls over financial operations. Specifically, we documented and analyzed internal controls over the revenue recognition cycle, cash disbursement cycle, payroll cycle, and reporting cycle.
- Reviewed bank reconciliations to ensure cash position was properly reported.
- Reviewed financial records and reconciled total expenditures to the latest submitted cost report. (See Schedule A for analysis.)
- Judgmentally selected 8 pay periods during the review period and reviewed 100% of employees charged to the DMH contract.
- Judgmentally selected 4 months and reviewed 100% of all contractor costs charged to the DMH contract.
- Judgmentally selected a sample of non-payroll expenditures and reviewed the source documents to ensure expenditures were related to the DMH contract.
- Reviewed financial records to ensure Amanecer properly recorded and tracked expenditures according to the funding source.
- Compared actual revenues and expenditures to the budgeted amounts in the negotiation package.
- Compared actual units of service provided to the proposed level identified in the negotiation package.
- Reviewed the proposed staffing level identified in the negotiation package and compared it to the current organizational structure.
- Judgmentally selected a sample of employees and reviewed personnel files to ensure the employee met the education/professional qualification required for the position.

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ANALYSIS

The following section documents our analysis of the interviews, data gathered and testing procedures as previously described. We have summarized these results by major areas.

Going Concern

We obtained and reviewed the latest financial independent auditors report (FYE 6/30/04) and did not note any going concern disclosures. The annual financial audit for fiscal year ended 6/30/05 was completed in October and a final report has not been issued. However, discussions with the Executive Director and Controller have indicated that their financial auditors (Green, Hasson, & Janks LLP) have discussed with them the possibility of including a going concern disclosure in the 2005 audit report.

The main cause of the going concern related to limited cash flow as Amanecer is waiting for DMH to settle on fiscal years 2003 and 2004. Amanecer's expenditures have exceeded the amounts reimbursed by DMH for the past three fiscal years. A review of the trial balance as of June 30, 2005 disclosed accounts receivable of approximately \$750,000, which are all receivables from DMH. As of September 2005, Amanecer's money market reserve fund has been reduced to zero to help cover expenditures. In addition, Amanecer has a line of credit of \$350,000. Approximately \$150,000 has already been drawn and management fears that more will be drawn unless DMH settles up on prior years receivables.

Based on our review, if Amanecer's cash flow problem with DMH is not resolved in a timely manner, Amanecer's ability to continue as a going concern will be in jeopardy by the end of the current fiscal year.

Internal Controls

Amanecer's administrative office, which oversees the financial operations, comprises of an Executive Director, Controller, Accounting Manager, Accounting Assistant, Human Resource Director, and a Secretary. Interviews were conducted with each employee to gain an understanding of Amanecer's internal controls over four key cycles: revenue recognition, cash disbursements, payroll, and reporting. We also reviewed key documents to ensure the controls were operating as designed.

From our interviews, we noted some controls changed during the fiscal year and with new personnel hired during the year. Despite the changes, internal controls were adequately designed and implemented to protect, record, and track expenditures related to the DMH contract.

However, we did note that the accounting policy was not updated to comprehensively include all operation functions of Amanecer. Specifically the policy lacked procedures regarding capitalization policy, billing process, authorized check signers, positive payment authorization, and the procurement process. (See *Findings and Recommendations Section Finding #1* of this report.)

Bank Reconciliation

We obtained and reviewed the monthly bank reconciliations and noted Amanecer utilizes four bank accounts to track the agency's cash position. The main checking account is used to pay for all non-payroll expenditures. A payroll account is maintained to fund ADP twice a month for payroll expense. A money market account is used as a savings account which earns minimum interest. The final account is a bank account Amanecer designates the petty cash account, which has less than \$500 and had no activity during the year.

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We reviewed the bank reconciliations to ensure they were mathematically accurate and completed in a timely manner. We also reviewed for unusual reoccurring entries that did not clear in subsequent bank statements. We also reviewed voided checks to ensure the checks were properly voided.

Based on our review, bank reconciliations were mathematically accurate and completed in a timely manner. No unusual entries were noted during the review.

Review of Salary Expenditures

Employees at Amanecer are paid bi-monthly, on the 7th (covering the last 15 or 16 days of the previous month) and 22nd (covering the first 15 days of current month). A judgmental sample of eight pay periods was selected for review. Our sample included the periods ending 7/15/04, 7/31/04, 11/15/04, 11/30/04, 3/15/05, 3/31/05, 5/15/05, & 5/31/05. Total salaries for the selected pay period were \$1,401,410, which was approximately 35% of the total salary charged for the fiscal year. For each selected pay period, we reviewed all employees charged to ensure payroll expense was properly calculated and documented.

ADP reports detailed by employee and department supported the payroll expenditures for each pay period. From the ADP reports, we traced each employee's hours back to time sheets completed by the employee and signed by a direct supervisor. Each employee is required to complete a timesheet documenting the time spent during that pay period. Direct supervisors are also required to review the timesheet to ensure the time spent was accurate. We also traced the employee's pay rates to individual employee personnel files. Within each personnel file, Amanecer documents the employees authorized pay rate with a Position Request Form. For hourly employees, we recalculated the gross pay based on hours approved on the timesheet and the hourly rate approved in the employee's personnel file.

From payroll records and personnel files, we noted many final paychecks as several employees voluntarily or involuntarily left Amanecer during the year. The largest payout noted was for the former Executive Director as several payments were made to the former director, totaling over \$80,000, which included payroll expense through February 2005, vacation payout, and a severance package. All payments were properly documented with approvals from the Board of Directors and documented in the payroll registers.

However our review of salary expenditures did note some exceptions. The following summarizes the exceptions: (See *Findings and Recommendations Section Finding #2* of this report for details of exceptions.)

- Pay rates on the ADP payroll register did not agree with the authorized pay rates in the personnel files.
- Timesheets were not signed by either the employee or direct supervisor.
- On-call pay rate was not documented in the employee personnel file or with a company wide policy.
- Hours worked on the ADP payroll reports did not agree with the signed timesheets.
- Approval for a bonus/incentive pay was not documented in the employee personnel file.

Review of Consultant Expenditures

Amanecer utilizes contracted labor with some of the services it provides to the clients. Each consultant is required to submit a timesheet documenting their time spent working with clients. Based on the submitted timesheets and signed contracts on file with Amanecer, consultants are paid through ADP on a bi-monthly basis. A separate payroll register is maintained to support those expenditures. Taxes are not withheld from the consultants pay and a 1099 is issued to each consultant on a yearly basis.

A judgmental sample of four months was selected for further review. Our sample included the following months: July 2004, November 2004, March 2005, and May 2005. Total consultant costs for the selected periods were \$166,554, which was approximately 31% of the total consultant costs charged for the fiscal year. For each selected

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month, we reviewed all consultant charged to ensure the expense was properly calculated and documented. The hours reported for each transaction was traced to the completed timesheets. Rates of pay for each consultant were traced to signed contracts on file with Amanecer. Based on the completed timesheets and signed contracts we calculated the gross amount and compared it to the amount charged to the DMH contract.

Based on our review of contractor expenditures, we noted some exceptions. The following summarizes the exceptions: (See *Findings and Recommendations Section* Finding #3 of this report for details of exceptions.)

- Signed contracts not available for some contractors.
- No timesheet was available for one contractor.
- Rate of pay not documented in the contract for one contractor.

Review of Non-Payroll Expenditures

We reviewed the trial balance and judgmentally selected eight accounts and selected a sample of transactions from each account for review. The accounts selected for review were: Facility Rent & Leases, General Insurance, Equipment/Furniture/Fix Asset, Interest Expense, Food & Provisions, Client Needs, Depreciation, and Legal & Audit. Total expenditures claimed for these eight accounts were \$899,126, which is approximately 14% of the total costs for the fiscal year. The following is a brief description of the expenditures noted during our review.

<u>Expense Account</u>	<u>Description</u>
Facility Rent & Leases	Rental expense for seven suites occupied at 1200 Wilshire. Four of the suites are dedicated to DMH contract services. Two are used for the Domestic Violence-Cal Works contract. One suite is occupied by the administrative staff.
General Insurance	Insurance expense which included malpractice insurance, director's errors & omissions insurance, and property liability insurance.
Equipment/Furniture/Fix Asset	Expenditures related computer equipment and assets below the capitalization policy of \$5,000.
Interest Expense	Interest related to a loan from the Community Redevelopment Agency of the City of Los Angeles. The loan was used to acquire the Compass House property.
Food & Provisions	Food and other living amenities for the Compass House and Counseling Centers.
Client Needs	Expenditures for client necessity items, such as reward lunches, shoes, and hygiene products. Also noted were therapy and/or assistant expenditures such as car repairs, messages, and rent payment.
Depreciation	Depreciation expense for assets that were capitalized by Amanecer.
Legal & Audit	Legal fees related to employment termination and misconduct reviews. Audit fees were for the annual financial audit.

For each selected transactions, we were able to trace the expenditure back to source documents, such as, invoices, canceled checks, lease agreements, loan documents, and case notes approved by case managers. All documents were properly approved in accordance with Amanecer's internal control policy. The documents were also properly documented and we were able to determine the expenditures were related to the DMH contract.

Our review of client need expenditure noted some expenditures paid with funds identified as Los Angeles County System of Care Flex Funds, which purpose is to provide assistance and therapy treatments to clients. A random

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sample of the expenditures was selected for review and we noted the use of flex funds to pay for employees to attend a trip, with the clients, to a resort spas for full relaxation massages. In addition, we also noted flex funds were used to pay for employees to attend Universal Studios with the clients. Based on Flexible Funding Guidelines issued by DMH, these expenditures are questionable and not appropriate. (See *Findings and Recommendations Section* Finding #4 of this report for details.)

Each of these transactions were supported with appropriate documentation indicating it was a necessity for the client's therapy and it benefited each of the clients. All documentation reviewed indicated the approval signatures were all obtained prior to the payment of the expenditures. However, there was no documentation to indicate that the client actually received and benefited from the service and/or goods. Without documentation to signify receipt of the goods and/or service, it could not be easily determined if the expenditures were benefiting the client. (See *Findings and Recommendations Section* Finding #4 of this report for details.)

Cost Allocation

Amanecer basically has two funding sources, DMH and Cal Works. We reviewed the trial balance and noted the accounting system is setup to record and differentiate between costs for the DMH contract and the Cal Works contract. Each account number is assigned a two digit program code at the end to distinguish whether it relates to DMH or Cal Works. All direct salaries and non-payroll expenditures are charged to the appropriate accounts. For services that benefit the agency overall, the costs are pooled as General and Administrative costs and allocated monthly to all programs based on the year-to-date percentage of direct salaries incurred by these programs.

Based upon our review, Amanecer's is appropriately tracking costs related to the DMH contract and the allocation methodology of General and Administrative costs is appropriate. No exceptions were noted during our review.

Interest, Investment, and Other Income

We reviewed Amanecer's financial statements and accounting records and noted no investments made by the agency. Besides the reimbursement from DMH and Cal Works, no other income was noted. Approximately \$8,000 of patient fees were received during the year and the amount was applied to reduce expenditures on the cost report. Interest earned on the checking and money market was very minimal and used to offset costs not charged to the DMH contract.

Based upon our review, interest and other income were properly recorded in Amanecer's financial records and in the cost report. No exceptions were noted during our review.

Closeout Review

We obtained the negotiation package and compared the budget expenditures to actual expenditures, budgeted units of services to actual units provided, and budgeted unit costs to actual unit of costs. (See Schedules B and C of this report for analysis.)

The analysis indicated actual expenditures were greater than budgeted, while the actual units of service provided was less than the level proposed in the negotiation package. Discussions with the Controller have indicated that employee turnovers during the fiscal year reduced the number of therapist and counselor providing billable service, while supportive staff remained consistent for the year. Also in 2004-2005, Amanecer chose to remove the two year freeze on wages and increased most employees' salary to be consistent with the 2004 Survey of Center for Nonprofit Management Salaries. Along with increased wages, there were also increases in facility rent and insurance. In addition, legal fees (employment issues), severance packages, and vacation payouts lead to unexpected costs for the fiscal year.

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During our review, we also noted that contract documents, negotiation packages, DMH's IS/MIS system, Amanecer's financial system, and annual cost report all report financial and/or statistical data differently. Each document would summarize the data in a different format and/or grouping with only the grand total being the common link, which makes it very difficult to determine if the specific goals and budgets were achieved. Discussions with the Controller indicated that actual services and expenditures were not tracked and compared to the negotiation package. In addition, Amanecer was having difficulty reconciling the units of service per the IS/MIS system with their own records.

Based upon our review, Amanecer needs to develop a methodology to monitor financial and statistical data to determine if goals and budgets proposed in the negotiation package will be met at the end of the contract. (See *Findings and Recommendations Section Finding #5* of this report for details.)

Staff Level Review

We reviewed the negotiation package and compared the proposed positions and full time equivalents (FTE) to salary data to determine if staff levels were appropriate to meet the needs of the contract. (See Schedule D of this report for analysis.)

Our analysis compared the monthly FTE per the negotiation package to the calculated monthly FTE equivalents from salary data and personnel files. Administrative positions were not proposed in the negotiation package and as such a comparison could not be performed. Programmatic positions employed during the fiscal year exceeded the monthly FTE proposed in the negotiation package.

Based upon our, actual staffing levels exceeded the proposed level in the negotiation package. No exceptions were noted during our review.

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FINDINGS AND RECOMMENDATIONS

Finding #1 - Update Accounting Policy and Procedure Manual

Amanecer's accounting manual does not comprehensively include policies and procedure to include all essential accounting functions. Specifically, the manual lacked policies regarding capitalization policy, billing process, authorized check signers, positive payment authorization, and the procurement process. A comprehensive accounting manual is essential to the operation of an agency should there be employee turnover or questions on how financial data should be recorded.

Recommendation #1

We recommend that Amanecer develop a written accounting manual to include all policies and procedures related to the accounting functions. The policies and procedures should be a comprehensive reflection of Amanecer's financial operations and detailed enough to allow employees to fully understand their job duties.

Finding #2 – Several Salary Transactions Not Adequately Documented

During our review of salary expenditure, we noted the following exceptions:

Pay Period	Exception Noted	Payroll Amount
07/15/04	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	\$ 417
07/15/04	Supervisory signature was not obtained for the Executive Director's timesheet	4,479
07/15/04	On-call pay is supported with signed timesheets; however the on-call pay rate is not documented with company policies or in the employee's personnel files.	60
07/31/04	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	417
07/31/04	Supervisory signature was not obtained for the Executive Director's timesheet	4,479
07/31/04	Timesheets for a counselor indicated he worked 88 hours, but was paid for 90 hours. The difference of two hours was paid at a rate of \$11/hour.	22
07/31/04	Supervisory signature was not obtained for the Program Director's timesheet.	1,750
07/31/04	Timesheets for a counselor indicated he worked 28 hours, but was paid for 35 hours. The difference of seven hours was paid at a rate of \$20/hour.	140
07/31/04	Supervisory signature was not obtained for the Secretary's timesheet.	1,510
07/31/04	On-call pay is supported with signed timesheets; however the on-call pay rate is not documented with company policies or in the employee's personnel files.	852
11/15/04	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	417
11/15/04	Supervisory signature was not obtained for the Executive Director's timesheet.	4,479
11/30/04	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	417
11/30/04	On-call pay is supported with signed timesheets; however the on-call pay rate is not	348

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Pay Period	Exception Noted	Payroll Amount
	documented with company policies or in the employee's personnel files.	
11/30/04	Supervisory signature was not obtained for the Controller's timesheet.	3,125
03/15/05	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	417
03/15/05	Supervisory signature was not obtained for the Controller's timesheet.	3,125
03/15/05	Supervisory signature and employee signature were not obtained for a Therapist's timesheet.	6,455
03/31/05	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	417
03/31/05	Supervisory signature was not obtained for the Controller's timesheet.	3,125
03/31/05	Approval for an incentive payment to the Controller was not documented in personnel file. The check was signed by the Board of Directors and a written approval was prepared by the Board during the audit.	2,500
03/31/05	On-call pay is supported with signed timesheets; however the on-call pay rate is not documented with company policies or in the employee's personnel files.	300
03/31/05	Supervisory signature was not obtained for a Program Coordinator's timesheet.	4,383
05/15/05	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	417
05/15/05	Supervisory signature was not obtained for the Executive Director's timesheet.	5,175
05/15/05	Employee signature was not obtained for a Therapist's timesheet.	891
05/15/05	Supervisory and employee signature was not obtained for a Therapist's timesheet.	1,115
05/15/05	On-call pay is supported with signed timesheets; however the on-call pay rate is not documented with company policies or in the employee's personnel files.	244
05/31/05	Accounting Manager's gross pay did not agree with the authorized amount documented in the employee's personnel file. The amount was informally approved by the Board of Directors, but the difference of \$417 per pay period was not documented in the employee's personnel file.	417
05/31/05	Supervisory signature was not obtained for the Executive Director's timesheet.	5,175
05/31/05	On-call pay is supported with signed timesheets; however the on-call pay rate is not documented with company policies or in the employee's personnel files.	510

Amanecer's internal control policy requires the employee and direct supervisor to sign the timesheets to certify the time spent during the pay period. It also Amanecer's policy to document an employees' approved pay rate in the respective personnel files.

Recommendation #2

We recommend that Amanecer enforce their policy requiring employees and supervisors to sign the timesheets. In addition, we recommend that Amanecer review the personnel files to ensure pay rates for employees are up to date and properly approved.

Finding #3 – Consultant Costs Not Adequately Documented

During our review of consultant costs, we noted the following exceptions:

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AMANECER COMMUNITY COUNSELING SERVICES

2004-2005 Fiscal Review

Pay Period	Exception Noted	Costs
07/15/04	Contract for Ryan Ganimian was not available for review.	\$ 864
07/15/04	Contract for Dorothy Tanner was not available for review.	860
07/31/04	Contract for Ryan Ganimian was not available for review.	1,026
07/31/04	Contract for Dorothy Tanner was not available for review.	880
07/31/04	Timesheets were not available for Ram Danboyian.	1,500
03/31/05	Pay rate for Aaron McLendon was not specified in the contract.	120
05/15/05	Pay rate for Aaron McLendon was not specified in the contract.	360
05/31/05	Pay rate for Aaron McLendon was not specified in the contract.	120

Amanecer's internal control policy requires signed contracts to be on file for all consultants. In addition, all consultants are required to complete timesheets to document their time spent working.

Recommendation #3

We recommend that Amanecer enforce their policy requiring consultants to complete timesheets documenting their time spent. In addition, we recommend Amanecer review its files to ensure each consultant has a signed contract with the approved pay rate documented.

Finding #4 – Client Need Expenditures Not Adequately Documented and Not Always Appropriate

During our review of non-payroll expenditures, we noted that client need expenditures were not always adequately documented. The documents maintained by the accounting department did not always identify the client and/or family receiving the goods or services. Additional documents are maintained by the case managers which document the purpose of the expenditure as well as the name of the client receiving the goods and services. The document is a Los Angeles County System of Care request form, which documents the client and purpose of the expense. The form is signed by the therapists, case manager, parent advocate, and program coordinator prior to paying for the expense.

A random sample of client need expenditures was selected for review. The following are some of the transactions noted:

- \$1,121 for a trip to a resort spa for full relaxation massage. Total amount included payment for four Amanecer employees and six clients.
- \$1,216 for admission and meal tickets to Universal Studios Hollywood. Total amount included payment for seven Amanecer employees and 15 clients.
- \$1,100 to repair a client's automobile.
- \$1,500 to pay three months of rent for a client.
- \$2,032 to purchase three computers for three different families.
- \$1,472 to purchase shoes for clients.

Each of these transactions were supported with appropriate documentation indicating it was a necessity for the client's therapy and it benefited each of the clients. All documentation reviewed indicated the approval signatures were all obtained prior to the payment of the expenditures. However, there was no documentation to indicate that the client actually received and benefited from the service and/or goods. Without documentation to signify receipt of the goods and/or service, it could not be easily determined if the expenditures were benefiting the client.

In addition, the use of Los County System of Care flexible funds is intended to pay for expenditures for the clients as described in the Flexible Funding Guidelines issued by DMH. The use of these funds to pay for employees to attend resort spas and Universal Studios with clients is questionable and not appropriate, as the main objective of flex funds was for the client's benefit and not employees of the agency. Amanecer's Executive Director has

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2004-2005 Fiscal Review

indicated that the agency will review flex fund expenditures more closely to ensure the funds are used in accordance with program guidelines.

Recommendation #4

We recommend that Amanecer develop and implement written policy and procedures requiring documentation indicating the client received the goods/services (i.e. signatures) be maintained with the accounting records. In addition, we also recommend that Amanecer develop and implement controls to ensure flex fund expenditures are utilized in accordance with program guidelines.

Finding #5 – No Methodology to Monitor Contract Goals and Budget

Contract documents, negotiation packages, DMH's IS/MIS system, Amanecer's financial system, and annual cost report all report financial and statistical data differently. Each document would summarize the data in a different format and/or grouping with only the grand totals being the common link, which make it very difficult to evaluate the progress of the program. During fiscal year 2004-2005, Amanecer did not have any systems in place to monitor their units of service and expenditures in a manner to ensure compliance with the goals and budgeted costs of the contract. At the end of fiscal year 2004-2005, actual expenditures exceeded the proposed amount in the negotiation package and units of service was below the total projected.

Recommendation #5

We recommend that Amanecer develop and implement a system to monitor expenditures and units of service to ensure compliance with the goals and budgeted costs proposed in the negotiation package.

SCHEDULE A

COUNTY OF LOS ANGELES, DEPARTMENT OF MENTAL HEALTH

AMANECER COMMUNITY COUNSELING SERVICES

SCHEDULE OF TOTAL COSTS

July 1, 2004 - June 30, 2005

Cost Category	Amount	% of Total
Salaries	\$ 4,047,828	65.20%
Consultant Fees	549,977	8.86%
Fringe Benefits	696,001	11.21%
Conferences & Workshops	15,904	0.26%
Mileage	80,011	1.29%
Facility Rental & Leases	533,535	8.59%
Equipment/Furniture/Fix Asset	30,712	0.49%
General Insurance	164,943	2.66%
Office Supplies	68,081	1.10%
Copying	2,732	0.04%
Postage & Delivery	4,926	0.08%
Dues & Subscriptions	17,059	0.27%
Printing	15,059	0.24%
Interest Expense	13,668	0.22%
Telephone	45,429	0.73%
Repairs & Maintenance	23,977	0.39%
ADP Processing Fee	11,819	0.19%
Auto Maintenance	6,347	0.10%
Staff/Board Development	16,734	0.27%
Lab Services	4,988	0.08%
Food & Provisions	21,485	0.35%
Household Supplies	1,900	0.03%
Utilities	13,615	0.22%
Client Needs	42,022	0.68%
Recreation	297	0.00%
Depreciation	40,438	0.65%
Legal & Audit	52,392	0.84%
Purchased Services	470	0.01%
Advertising & Recruitment	28,982	0.47%
Taxes & Licenses	4,181	0.07%
Miscellaneous	6,023	0.10%
<u>Less costs not allowable or not related to DMH Contract</u>		
Consultant Fees (Fundraising)	(54,011)	-0.87%
Office supplies	(211)	0.00%
Staff/Board Development	(22)	0.00%
DV-CAL Works program	(289,911)	-4.67%
<u>Less Patient Fees, Third Party Payor, or other Income</u>		
Patient Fees	(6,327)	-0.10%
Medicare	(2,286)	-0.04%
Total per Amanecer Accounting Records	<u>6,208,767</u>	100.00%
Variance	<u>(5,165)</u>	(See Note)
Total per Submitted Cost Report	<u>\$ 6,213,932</u>	

Note

Variance due to adjustment made to accounting records by Amanecer after submission of the cost report.

SCHEDULE B

**COUNTY OF LOS ANGELES, DEPARTMENT OF MENTAL HEALTH
AMANECER COMMUNITY COUNSELING SERVICES
BUDGET vs. ACTUAL**

July 1, 2004 - June 30, 2005

Expenditures

Mode	SFC	Costs per Negotiation Package	Costs per Cost Report	(Over)/Under	Variance Percentage
05	43	\$ 516,277	683,658	(167,381)	-32.42%
15	03 - 06	761,968	866,918	(104,950)	-13.77%
15	10 - 57	3,622,834	3,843,852	(221,018)	-6.10%
15	61 - 69	427,904	479,472	(51,568)	-12.05%
15	70 - 77	16,134	14,958	1,176	7.29%
45	10	13,781	15,566	(1,785)	-12.95%
45	20	93,018	68,146	24,872	26.74%
60	40 - 41	83,211	111,917	(28,706)	-34.50%
60	60	33,226	32,235	991	2.98%
60	64	57,300	97,210	(39,910)	-69.65%
Total		<u>\$ 5,625,653</u>	<u>6,213,932</u>	<u>(588,279)</u>	

Units of Service

Mode	SFC	Units per Negotiation Package	Units Per Cost Report	Over/(Under)	Variance Percentage
05	43	3,814	4,179	365	9.57%
15	03 - 06	590,673	556,089	(34,584)	-5.86%
15	10 - 57	2,236,317	1,967,795	(268,522)	-12.01%
15	61 - 69	197,191	182,835	(14,356)	-7.28%
15	70 - 77	6,532	5,011	(1,521)	-23.29%
45	10	272	254	(18)	-6.62%
45	20	1,834	1,112	(722)	-39.37%
60	40 - 41	3,793	4,221	428	11.28%
60	60	655	526	(129)	-19.69%
60	64	N/A	N/A	N/A	N/A
Total		<u>3,041,081</u>	<u>2,722,022</u>	<u>(319,059)</u>	

**COUNTY OF LOS ANGELES, DEPARTMENT OF MENTAL HEALTH
 AMANECER COMMUNITY COUNSELING SERVICES
 COSTS PER UNIT**

July 1, 2004 - June 30, 2005

Mode	SFC	Negotiated Rate	Actual Unit Costs	(Over)/Under	Variance Percentage
05	43	\$ 135.37	\$ 163.59	(28.22)	-20.85%
15	03	1.29	1.56	(0.27)	-20.93%
15	04	1.29	1.56	(0.27)	-20.93%
15	06	1.29	1.56	(0.27)	-20.93%
15	10	1.62	1.96	(0.34)	-20.99%
15	12	1.62	1.96	(0.34)	-20.99%
15	17	1.62	1.96	(0.34)	-20.99%
15	33	1.62	1.96	(0.34)	-20.99%
15	34	1.62	1.96	(0.34)	-20.99%
15	41	1.62	1.96	(0.34)	-20.99%
15	42	1.62	1.96	(0.34)	-20.99%
15	47	1.62	1.96	(0.34)	-20.99%
15	52	1.62	1.96	(0.34)	-20.99%
15	54	1.62	1.96	(0.34)	-20.99%
15	57	1.62	1.96	(0.34)	-20.99%
15	61	2.17	2.62	(0.45)	-20.74%
15	62	2.17	2.62	(0.45)	-20.74%
15	67	2.17	2.62	(0.45)	-20.74%
15	77	2.47	2.98	(0.51)	-20.65%
60	40	21.94	26.51	(4.57)	-20.83%
60	41	21.94	26.51	(4.57)	-20.83%
60	60	50.71	61.28	(10.57)	-20.84%
45	10	50.71	61.28	(10.57)	-20.84%
45	20	50.71	61.28	(10.57)	-20.84%
60	64	-	-	-	0.00%
60	64	-	-	-	0.00%

**COUNTY OF LOS ANGELES, DEPARTMENT OF MENTAL HEALTH
AMANECER COMMUNITY COUNSELING SERVICES
STAFFING LEVELS**

July 1, 2004 - June 30, 2005

Position	Monthly FTE Equivalent			Notes
	Per Negotiation Package	Per Employee Listing	Variance - Over/(Under)	
Case Manager	217.20	229.35	12.15	
Coordinator (Program Director)	15.00	33.83	18.83	
Counselor	84.60	167.78	83.18	
Family Advocate (Parent Advocate)	12.00	12.00	-	
Therapists	326.64	414.05	87.41	
Mentor (Contractor)	3.60	-	(3.60)	(A)
Psychiatrist (Contractor)	29.40	-	(29.40)	(A)
Psychologist (Contractor)	21.72	-	(21.72)	(A)
Accounting Assistant	-	12.00	12.00	(B)
Accounting Manager	-	12.00	12.00	(B)
Administrative Assistant	-	17.17	17.17	(B)
Clinical Supervisor	-	13.94	13.94	(B)
Controller	-	10.65	10.65	(B)
Data Analyst	-	2.52	2.52	(B)
Data Entry	-	50.27	50.27	(B)
Executive Administrative Asst.	-	12.00	12.00	(B)
Executive Director	-	11.48	11.48	(B)
HR Director	-	6.77	6.77	(B)
Intake Coordinator	-	0.74	0.74	(B)
Intake Specialist	-	1.94	1.94	(B)
IT Manager	-	12.00	12.00	(B)
Office Manager	-	21.76	21.76	(B)
Program Assitant	-	12.00	12.00	(B)
Program Coordinator	-	55.26	55.26	(B)
QA/HIPAA Director	-	12.00	12.00	(B)
Receptionist	-	39.98	39.98	(B)
Secretary	-	22.44	22.44	(B)
Sr. Database Administrator	-	12.00	12.00	(B)
Staff Accountant	-	2.33	2.33	(B)
Support Staff Supervisor	-	24.00	24.00	(B)

Notes:

(A) - Position filled with Consultants who performed services as needed.

(B) - Position was not listed in the Negotiation Package.



December 2, 2005

BOARD OF DIRECTORS

Dale Reid, Esq.
President

Tony Muñoz, Esq.
Vice President

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Todd Nelson

M. Teresa Villegas

Sergeant Omar Rodriguez

Craig Simmons

Tim Ryder
Executive Director

ADMINISTRATIVE OFFICES

1200 Wilshire Blvd., Suite 208

Los Angeles, CA 90017

213-481-7464

213-481-7147 Fax

OUTPATIENT SERVICES

Adults Clinic

Suite 210

213-481-1347

213-482-9466 Fax

Children's Clinic

Suite 100

213-482-9400

213-481-1023 Fax

Children's System of
Care/Intensive Services

Suite 500

213-481-4260

213-481-4264 Fax

School Based Program

Suite 500

213-481-4260

213-250-7445 Fax

CalWORKs

Domestic Violence Services

Suite 406

213-481-1792

213-482-9464 Fax

RESIDENTIAL SERVICES

Compass House

2335 Portland Street

Los Angeles, CA 90007

213-747-8470

213-747-3801 Fax

www.ccsla.org

MEMBER OF
Association of Community
Health Agencies

J. Tyler McCauley
Los Angeles County Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, CA 90012

Dear Mr. McCauley:

Amanecer Community Counseling Service is very pleased to provide our response to the Auditor-Controller's report for the audit conducted in October 2005. We are also responding to the report on our financial systems and controls by contract auditor Conrad & Associates.

Amanecer sincerely appreciates the recommendations and feedback from the Auditor-Controller and we wish to thank the audit teams for their true professionalism and the high caliber of their work in assisting us to make Amanecer's services remain at the highest quality for our clients and for DMH.

Overall we are pleased with the findings that we are meeting the service requirements outlined in the County contract, that our clients and/or their parents or legal guardians are satisfied with the services they are receiving from Amanecer, and that we have sufficient and qualified staff in our programs providing those services.

We are also in agreement with the auditors' assessment that a prompt settlement of Amanecer's receivables with DMH will greatly improve our cash flow position and alleviate any concerns about the potential for a going concern disclosure. For the record, our auditor at Green, Hasson & Janks did not include a going concern disclosure in our audit, but rather indicated that "beginning in August 2005 management instituted aggressive cost containment efforts" and "greatly reduced labor costs." In addition, Amanecer is currently working with DMH and the County to address serious under funding on the revenue side of many of our programs, but particularly with Compass House, which has had a net loss for 3 years and has been a financial drain on the agency.

The receivables in question, which have been verified by auditors and by DMH to be in excess of \$750,000, are for fiscal years 2002/03 and 2003/04. Contract revenues have been stagnant or declining over the last 3 years due to the lack of a negotiated contract increase. We are currently seeking such an increase based on performance where services billed have exceeded contract maximums. Amanecer has drastically and aggressively cut expenditures in many areas such as facilities and insurance and has had to lay off employees to better match expenses with our revenues and stop the financial drain.

The payment of past due amounts, as the auditors state, should be “resolved in a timely manner” to avoid a future going concern issue for Amanecer.

Below are our responses to the recommendations included in the Auditor-Controller’s report:

Background: It is reported that the DMH site review conducted in March-May 2005 resulted in a July 2005 report that stated that written client and staff complaints had merit. Amanecer, with a new Executive Director as of April, issued a written response in September 2005 that disputed some of these findings and showed that corrective action plans were already in place for the other findings.

Recommendation #1: Repay DMH \$2,621 for amounts over billed.

Amanecer Response: Amanecer agrees with these findings and we are pleased at the relatively very small amounts of over billings. We will work closely with DMH to reimburse DMH for these amounts. We are planning and implementing improved billing procedures to check for potential duplicates and to ensure proper documentation on all billings.

Recommendation #2: Maintain sufficient documentation in the program participant case files to support the billings to DMH and to comply with contract requirements.

Amanecer Response: Amanecer understands that, while previous auditors did not request that each progress note refers back to specific client goals or specific contributions of each staff present in an intervention, the County DMH contract does specify this. Therefore, Amanecer has already begun the process of implementing a revised documentation training to ensure that the progress note and other chart documentation completely support the billings and the contract requirements. This training will specifically address the following issues:

- Progress notes describing client or staff attempts or accomplishments towards the clients’ goals.
- Specific contributions of each staff present at an intervention.
- Proper activity/procedure codes
- Client Plans and Assessments, ensuring that goals are observable and/or quantifiable and the inclusion of case management goals in the Plan.

Recommendations #3 & 4: Discontinue practice of billing for Crisis Residential Treatment services provided on discharge date, and review billings for Crisis Residential for 2004/05 and 2005/06 and repay any amounts over billed to DMH.

Amanecer Response: This issue began with the implementation of the new IS system in September 2004. There was some confusion with regard to instructions by the DMH IS staff with regard to the proper billing on the date of discharge, and Amanecer believed that it was properly billing for these services. We appreciate the Auditor-Controller’s clarification with regard to the non-billable nature of the date of discharge as per the California Title 9 code. Therefore, we have already discontinued the billing on date of discharge and will make arrangements with DMH for the reimbursement of previous amounts billed in error since September 2004.

Recommendation #5 & 6: Ensure that staff complete Assessments and Client Plans and file in participants’ case files. Ensure that participants or legally responsible adults sign the participants’ Client Plans.

Amanecer Response: We were pleased that only 2 Assessments and 2 Client Plans out of 69 were not completed or not in the chart. It is Amanecer's existing written policy that the Assessments and Plans be completed, signed and included in the clients' charts. Amanecer will reiterate this policy in future staff trainings and will document these trainings. In addition, the trainings will emphasize the topics of proper documentation that we cited in our response to Recommendation #2 above to ensure that documentation fully supports billings and contract requirements.

As we discussed with the Auditor-Controller during our exit conference on November 3, 2005, Amanecer is currently in the process of reviewing and improving all of our Quality Assurance processes, including service provision and documentation of services, approvals and audits of progress notes and other required DMH documentation, and the billing procedures both internally and those in the IS system to DMH. We firmly believe that this revamping of our processes and procedures will greatly improve our performance with all of the areas cited in this audit, as we will catch many if not most of the errors on the front-end of our process instead of on a back-end audit weeks or months after services are delivered and billed.

Recommendation #7: DMH work with Amanecer and others to develop a customer satisfaction survey for participants or parents and guardians.

Amanecer Response: Amanecer would be very pleased to work with DMH to develop such a customer satisfaction survey. We assume this would be for all contract providers and not targeted solely at Amanecer. Therefore, it would be our recommendation that the Association of Community Human Services Agencies (ACHSA) be the lead in working with DMH to develop the survey, as all contractors would be affected.

Amanecer expresses its concern about DMH's concern that the 10 clients interviewed somehow do not accurately capture participant satisfaction. Amanecer already has an existing client satisfaction survey that was conducted in January 2005 and will be conducted again in early 2006. Those results, shared with DMH, show that over 90% rated quality of service as excellent or good, 95% rated staff as courteous and professional, and 88% felt the services they received greatly helped them.

The interviews done in March by DMH occurred at a time of major transition and some staff turnover and we acknowledge some complaints. A new Executive Director joined in April 2005 and in May, Amanecer implemented new continuity and quality of care policies to ensure the highest level of customer service. New management has also made every effort to inculcate a culture where client/customer satisfaction and the highest quality of service are of the utmost importance. Rather than question the representative nature of the clients selected by the Auditor-Controller, Amanecer believes that our emphasis on high quality of care over the past 7 months is paying off in greater client satisfaction in general and higher staff morale as well.

Recommendation #8: Management monitoring of staff compliance with policy to show all actual hours worked on timecard.

Amanecer Response: A new procedure was implemented in June 2005 to address this issue with all staff. All non-exempt staff have always put their full hours worked. Some exempt staff only put a maximum of 8 hours previously. We implemented a policy so that timecards show the full amount of hours actually worked. This policy was reemphasized by the Controller again in

August 2005 to make sure that staff were fully compliant. Management will continue to monitor on-going compliance with the policy.

The recommendations made in this report by the Auditor-Controller are extremely helpful and will be incorporated into our Quality Assurance processes. We deeply appreciate the hard work that went into the audit and would like to thank the audit teams again for their open communication and assistance.

FINANCIAL AUDIT REPORT FROM CONRAD & ASSOCIATES

Amanecer is also pleased to respond to the report from contract auditor Conrad & Associates, who performed an audit of Amanecer's financial controls and financial records and reporting.

We have addressed the issue of Going Concern in the first page of our response.

Finding #1: Updating Accounting policies

Amanecer Response: Amanecer agrees that certain Accounting policies will need to be updated, specifically to improve documentation on issues such as capitalization of assets, billing procedures, check-signing authority and the procurement process. We have started the process to review all of our current policies and to provide updates where necessary. We anticipate the majority of this work will be done by February 2006, with any remaining policy updates to take place on an as-needed basis.

Findings #2 & #3: Improving documentation of salary transactions; Improving documentation of consultant costs.

Amanecer Response: Amanecer has stepped up efforts to enforce existing policies regarding supervisor approvals on timesheets. We will also add a policy and a procedure for the Board of Directors to sign off on the Executive Director's timesheets, expenses and any other payments at each Board meeting. Pay rates for on-call and consultant staff are being updated and kept in all personnel and consultant files, as per new procedures implemented in June 2005. A new procedure was put into place in June 2005 to ensure that all pay rate changes for personnel are fully approved through a position request/change form. We have reviewed our process for contractors/consultants and as of January 2006 we will no longer be processing contractors through our payroll system, but rather will require every contractor/consultant to invoice Amanecer for all services performed to maintain independence as per IRS guidelines.

Finding #4: Client needs expenditures.

Amanecer Response: Amanecer was not aware that signatures or acknowledgements were needed from clients who receive goods or services. We will implement a written policy and procedures to have client sign an acknowledgement that the goods or services were received. In addition, should Flexible Funds be made available by DMH in the future, Amanecer will ensure that the funds are spent for the benefit of the clients. We understand that, because many of these clients were under-age, it is acceptable to have some staff accompany the clients on outings. Although DMH did approve ahead of time the funding for the trips in question, we will monitor the ratio of clients to staff on these outings to ensure that it is based on client needs. We

appreciate the audit team bringing these matters to our attention so that we can maintain even stronger accounting records.

Finding #5: Methodology to monitor contract goals and budget.

Amanecer Response: Amanecer began processing billing through the new DMH IS system in September 2004. Throughout fiscal 2004/05, it had been very difficult to obtain accurate data from the system on units of service to be able to compare to current budget. Since July 2005, DMH IS system has been able to provide us with more accurate data extracts, which we are currently using to compare billings to our records and to our contract and negotiation package. This has helped us to get a better handle on where we stand each month with our billings. We are currently upgrading our internal billing system and procedures to enable us to monitor our claims and reconcile our data with the IS system. We participate in the monthly IS Issues Workgroup and IS Reports Workgroup to help DMH IS staff understand the reporting needs of contract providers to comply with our contract requirements. Internally, we have implemented more timely financial statements to track expenditures against our contract and make adjustments more quickly. We agree with the auditors' assessment that our methodology should simplify data collection across programs. We are currently working with our association, ACHSA, in their efforts to propose a streamlined negotiation package format that will be more in line with contract language and easier for management and auditors to use for comparative analysis.

Again, our sincere thanks to the audit teams and to DMH for expediting this audit process so that Amanecer may be able to continue to serve the large underserved population of downtown Los Angeles and Pico-Union.

Sincerely,



Tim Ryder
Executive Director

cc: Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael Antonovich
Dr. Marvin Southard, DMH
Susan Kerr, DMH
Ed Vidaurri, LCSW, DMH